

Message Text

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ACTION EB-07

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 5623

INFO USMISSION GENEVA

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AMCONSUL BRISBANE BY POUCH

AMCONSUL MELBOURNE BY POUCH

AMCONSUL PERTH BY POUCH

AMCONSUL SYDNEY BY POUCH

AMEMBASSY TOKYO BY POUCH

AMEMBASSY WELLINGTON BY POUCH

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SYDNEY ALSO PASS USTC

E.O. 11652:NA

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SUBJ: AUSTRALIAN TRADE RESTRICTIVE MEASURES: OUTLOOK

REF: A. CANBERRA 2695

B. CANBERRA 2675

C. CANBERRA 2623

D. CANBERRA 2597 (NOTAL)

E. CANBERRA 2590

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G. STATE 077387 (NOTAL)

1. SUMMARY. THIS IS THE FINAL OF FOUR TELEGRAMS ASSESSING RECENT AUSTRALIAN IMPORT RESTRICTION MOVES AS REQUESTED REFS (F) AND (G). THIS MESSAGE DISCUSSES THE OUTLOOK. THE WAVE OF RESTRICTIVE ACTIONS DURING PAST SIX MONTHS IS RESPONSIVE TO AN EXCEPTIONAL COMBINATION OF CIRCUMSTANCES NOT LIKELY TO BE REPEATED. GOA HAS NOW DEALT WITH MANY OF THE MOST SENSITIVE ITEMS. HOPEFULLY, A LARGE PART OF ITS SHORT-TERM RESTRICTIVE ACTION PROGRAM IS NOW COMPLETED. FOR THE LONGER FUTURE, WHILE AUSTRALIA WILL NOT REVERT FULLY TO THE STRONG PRO-IMPORT POLICIES OF 1973, IT IS PROBABLY CONSUMER INTERESTS AND LONG-TERM INDUSTRIAL POLICY OBJECTIVES INCLUDING THE EVOLUTION OF A MORE VIABLE INDUSTRIAL STRUCTURE WILL RECEIVE INCREASED WEIGHT. THE PRINCIPAL THREAT TO THIS OUTCOME IN THE SHORTER RUN IS AUSTRALIA'S SEVERE AND UNSOLVED INFLATION PROBLEM. THIS PROGRESSIVELY IMPAIRS THE COMPETITIVE POSITION OF AUSTRALIAN MANUFACTURERS AND MAY CONTINUE TO ATTRACT IMPORTS OF SOME ITEMS AT LEVELS WHICH WILL GENERATE NEW DEMANDS FOR DOMESTIC PROTECTION. END SUMMARY.

2. GOA TRADE POLICY SPOKESMEN STEADFASTLY INSIST THAT RECENT WAVE OF SHARPLY RESTRICTIVE IMPORT MEASURES IS CONCEIVED AS, AND WILL IN FACT PROVE, TEMPORARY EMERGENCY RESPONSE TO POLITICALLY UNTENABLE UNEMPLOYMENT LEVEL CREATED BY UNPRECEDENTED IMPORT INCREASES OF 1974. CONJUNCTION OF SUDDEN DOMESTIC RECESSION, HIGH INFLATIONARY DEMAND AND EXCESSIVE IMPORT STOCKS BUILT UP THROUGH ORDERING IN SHORTAGE PERIODS CREATED INTOLERABLE SITUATION WHICH REQUIRED EMERGENCY SHORT-RUN MEASURES. THESE SPOKESMEN INSIST THAT POLICY AIMED AT LONGER-TERM GOA OBJECTIVE OF MODERATING IMPORT PROTECTION STRUCTURE TO EVOLVE MORE VIABLE AND COMPETITIVE MANUFACTURING SECTOR WILL BE RESUMED AFTER ABNORMAL STOCKS WORKED OFF AND TEMPORARY HIGH UNEMPLOYMENT IN SENSITIVE SECTORS RELIEVED.

3. WE BELIEVE THESE INTENTIONS ARE SINCERE. WHETHER THEY WILL MATERIALIZE IS LESS CLEAR. IN EVERY RECENT RESTRICTION CASE MACHINERY HAS SIMULTANEOUSLY BEEN SET IN MOTION TO DEVELOP RECOMMENDATIONS FOR APPROPRIATE LIMITED OFFICIAL USE

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AND PRESUMABLY MORE MODERATE LONG-TERM PROTECTION MEASURES FOR LATER ADOPTION. IN SOME CASES, MOREOVER, TWO-YEAR TEMPORARY MEASURES SPECIFICALLY PROVIDE FOR SIGNIFICANT LIBERALIZATION IN THE SECOND YEAR. (SEE PARA 2 REF E). THE BASIC THRUST OF THE INDUSTRIES ASSISTANCE COMMISSION, WHICH IS RESPONSIBLE FOR DEVELOPING THE LONG-TERM RECOMMENDATIONS, CONTINUES STRONGLY IN FAVOR OF REMOVING "EXCESS PROTECTION" FROM AUSTRALIAN TARIFF

STRUCTURE AND EXPOSING AUSTRALIAN INDUSTRY TO BENEFICIAL INTERNATIONAL COMPETITION.

4. COMPARISON OF THE PRODUCT AREAS COVERED BY ACTIONS TO DATE WITH THE LIST OF PRODUCTS ON WHICH PROPOSALS ARE KNOWN TO BE PENDING REVEALS UNSURPRISINGLY THAT MANY OF THE MOST SENSITIVE AREAS HAVE NOW BEEN DEALT WITH AND THAT THE RELATIVE SENSITIVITY OF THE PENDING CASES IS, AT LEAST ON THE AVERAGE, MORE MODEST. WE HAVE ALSO BEEN ENCOURAGED BY THE SCATTERING OF CASES IN WHICH PROPOSALS FOR EMERGENCY ASSISTANCE HAVE BEEN REJECTED.

5. BUT THERE ARE ALSO SEVERAL FACTORS WHICH INDIVIDUALLY WIEHG AGAINST REVERSAL OF THE RECENT AUSTRALIAN SWING TO INCREASED PROTECTION. THE INITIAL ENERGY AND IDEALISM WITH WHICH THE WHITLAM GOVERNMENT SHARPLY REDUCED TARIFFS AND REVALUED THE AUSTRALIAN DOLLAR TO PROMOTE IMPORTS IS SPENT AND IS UNLIKELY TO RETURN. WHILE THE INFLATION WHICH MOTIVATED THIS DRIVE IS NOW EVEN WORSE, THE EXTRAORDINARILY LARGE PAYMENTS SURPLUSES WHICH CONTRIBUTED MUCH OF THE THRUST HAVE BEEN SHARPLY REDUCED. MOREOVER, IT IS AXIOMATIC THAT IT IS EASIER TO INCREASE THAN TO REDUCE IMPORT PROTECTION. THE BATTLE TO RETAIN THE "TEMPORARY" PROTECTION LEVELS WHEN THEY ARE OTHERWISE SCHEDULED TO EXPIRE WILL BE INTENSE AND IS VERY LIKELY TO BE AT LEAST PARTIALLY SUCCESSFUL. MOREOVER, THE SUPPORT FOR LIBERAL TRADE POLICY AND LONG-TERM INDUSTRIAL RESTRUCTURING, WHICH IS NOT WIDESPREAD IN THE RANK AND FILE OF THE LABOR PARTY, IS EVEN MORE LIMITED IN THE LIBERAL PARTY. IN GENERAL, THE LIBERAL ATTITUDE TOWARD THE 1973 WHITLAM TRADE POLICY VARIED FROM DEEP APPREHENSION TO OUTRIGHT DENUNCIATION. FOR THIS REASON, THERE IS LITTLE PROSPECT FOR LIMITED OFFICIAL USE

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THAT POLITICAL SUPPORT FOR AUSTRALIAN TRADE LIBERALIZATION COULD INCREASE IN THE FORESEEABLE FUTURE. ANY CHANGE IN THE POLITICAL SITUATION WOULD BE TOWARD REDUCING THE SUPPORT.

6. FINALLY, THE MOST IMPORTANT NEGATIVE FACTOR IS PROBABLY AUSTRALIA'S CONTINUING INFLATION. CPI FIGURES FOR THE MARCH QUARTER, JUST RELEASED, PERMIT VARYING INTERPRETATIONS BUT EVEN OPTIMISTIC ANALYSTS CAN ONLY CLAIM THEY INDICATE A FLATTENING OF THE RATE OF INFLATION. MOST OBSERVERS FEEL AUSTRALIA'S INFLATION WILL GET WORSE BEFORE IT GETS BETTER - A VIEW RE-ENFORCED BY LATEST WAGE INDEXATION DEVELOPMENTS. UNDER THESE CONDITIONS, THE POSITION OF AUSTRALIAN MANUFACTURERS VIS-A-VIS COMPETING IMPORTS WILL CONTINUE SLOWLY TO DETERIORATE IN THE

FORESEEABLE FUTURE THEREBY FUELING DEMANDS FOR ADDED PROTECTION.

7. THESE CONSIDERATIONS SUGGEST TO US THAT (1) THERE IS NO PROSPECT FOR RETURN TO THE BOLD IMPORT LIBERALIZATION POLICIES OF 1973; (2) THE CONCENTRATED BURST OF RESTRICTION WHICH WE HAVE WITNESSED IN THE PAST FEW MONTHS WILL PROBABLY ABATE; (3) BUT PROTECTIO REQUESTS STILL IN THE PIPELINE WILL PROBABLY YIELD SEVERAL ADDITIONAL RESTRICTIVE ACTIONS IN COMING MONTHS, HOPEFULLY IN DECLINING FREQUENCE; (4) IN THE LONGER-RUN WHEN AUSTRALIA'S SEVERE UNEMPLOYMENT AND INFLATIONARY PROBLEMS FINALLY RECEDE, AUSTRALIAN TRADE POLICY SHOULD STABILIZE IN A MODERATELY LESS PROTECTIONIST STANCE THAN THE TRADITIONAL PRE-1973 AUSTRALIAN POSITION.
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